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ABSTRACT

After progress towards achieving major income security goals during the 1960s and 1970s, economic slowdown and public reaction against "the welfare state" have curtailed direct intervention by the federal government for these purposes. Absolute poverty and welfare dependency have increased in the 1980s, especially among the young. Major gaps also remain in affordable housing and health insurance coverage among the lower middle class, and there is a growing need for long-term care among the aged. A resurgence of economic growth is needed to facilitate political consensus for income security policies to improve these conditions. Data are presented on nine tables and figures. Footnotes are included. (Author/BJV)

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INCOME SECURITY IN AMERICA

The Record and the Prospects

John L. Palmer

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INCOME SECURITY IN AMERICA

The Record and the Prospects

URBAN INSTITUTE REPORT 88–3

John L. Palmer

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ABSTRACT

After progress towards achieving major income security goals during the 1960s and 1970s, economic slowdown and public reaction against "the welfare state" have curtailed direct intervention by the federal government for these purposes. Absolute poverty and welfare dependency have increased in the 1980s, especially among the young. Major gaps also remain in housing affordabilities and health insurance coverage among the lower middle class and there is a growing need for long term care among the aged.

A resurgence of economic growth is needed to facilitate political consensus for income security policies to improve these conditions.

CONTENTS

The Changing Federal Role in Income Security 2

The Consequences 9
- Poverty 9
- Earnings Replacement 13
- Financial Access to Certain Goods and Services 19
- Income Distribution 26

The Prospects 30

Conclusion 36

NOTES 37

TABLES
1 Federal Expenditures and Reductions from Pre-Reagan Policy Baseline for Income Security Programs, Fiscal 1986 5

2 The Poverty Population, Selected Years 10

3 Antipoverty Effectiveness of Major Income Transfers, Selected Years 13

4 Major Provisions for Earnings Replacement in the United States, 1987 15

5 Replacement Rates Under Old Age and Survivors Insurance, by Age of Retirement, 1985 16

6 Relative Income Shares and Index of Income Concentration for Households, by Age of Head of Household, 1967 and 1983 28

FIGURES 1 Federal Social Program Spending as Percentage of GNP 7

2 Trends in the Percentage of Poor Among All Persons 11

3 Numbers of "Very Low-Income" Households with Housing Problems and of Total Housing Assistance Commitments Outstanding, 1975-85 23

INCOME SECURITY IN AMERICA: THE RECORD AND THE PROSPECTS

Charting the probable course of federal income security policy in the post-Reagan era is a problematic undertaking for a number of reasons. Because the American approach to income security concerns has always been so eclectic, comprising not so much a system as a hodge-podge of public and private programs, it is hard even just to delineate the domain of income security policy per se. Discussion of the subject consequently covers very different terrains. Also, historically and philosophically there has been very little explicit agreement on where the country is, and should be, going in the income security area; policies have been adopted much more for pragmatic than for ideological reasons, and public dialogue has never attained much clarity about the philosophical implications of policy alternatives. Finally, while the Reagan years seem to have afforded a useful airing of some of the basic value differences that underlie debate over policy alternatives, the debate itself seems to have become still murkier. Public acceptance of residential rhetoric is so much at odds with political acceptance of presidential policies that any effort at determining the "American public interest" in income security policy is a difficult task at best. Nevertheless, it seems a worthwhile enterprise for this paper. Over the last seven years the United States has been engaged in a serious rethinking of the federal role in the income security area. And while the rethinking has yet to produce a clear public consensus on future policies, it has yielded enough data to permit us to map the major developments in income security during the past several decades and to prognosticate about the constraints and problems future policies will have to confront.

For the sake of avoiding a quagmire of definition and program detail, I have oriented my discussion in this report around the goals most commonly accepted as objects of income security policymaking. The brief background section that follows outlines these goals in the context of recent federal expenditure patterns. The next section surveys overall progress toward the goals during the past several decades, indicating where possible the contribution of particular policies to the progress. The concluding section examines the prospects for income security policy in light of current economic and political realities.

The story that emerges can be summarized as follows. During the 1960s and early 1970s strong economic growth and highly expansionary income security policies led to considerable progress on major income security goals for the entire population. However, in the past ten to fifteen years much of this progress for the nonaged has been either arrested or reversed, as economic growth slowed and income security policies ceased to expand and, in some cases, contracted. This retrenchment was the inevitable consequence of numerous phenomena that preceded and were reinforced by the Reagan era. American income security policies are not likely to generally expand or generally contract in the foreseeable future. Rather, the prospects are for selective contractions in some areas and marginal expansions requiring minimal new commitments of public resources in others. Major income security problems, especially among the lower income population, are likely to remain.

THE CHANGING FEDERAL ROLE IN INCOME SECURITY

American income security policies can be considered to have three primary goals: the alleviation of poverty, the prevention of declines in economic well-being due to largely involuntary disruptions of earnings, and the assurance of financial access to an adequate level of certain goods and services that society deems indispensable. A fourth goal, narrowing income differentials, has sometimes been advocated, but has never gained popular acceptance as an explicit motivation of

public policies--although the distributional impacts of such policies have often been taken into account by policymakers. These four concerns are distinct but highly interrelated; policies designed to promote one are likely to promote others. For example, the subsidization of health care expenditures narrows effective income differentials. Similarly, programs that replace part or all of the earnings lost by a family through the unemployment, disability, retirement, or death of a breadwinner also prevent millions of people from entering poverty.

The four income security concerns are often perceived to conflict with other values and goals of our economy or society. Policies altering the market-determined distribution of command over goods and services necessarily abridge individual freedom and cause some people to be treated differently from others. Sometimes they offend our work ethic--the idea that monetary rewards ought to be tied to productive activities. Also, the growth of the economy may be slowed by the disincentive effects of certain tax or transfer policies. Such concerns contribute to our reluctance as a society to adapt a more aggressive stance toward income inequality and they affect our willingness to pursue the three primary goals.

The government, in its pursuit of income security objectives, can alter the distribution of income both directly and indirectly. This paper focuses on direct methods: tax collection; transfers, either of cash or by the financing or provision of certain goods and services intended primarily for current consumption; and subsidized employment in the public sector. Among these direct methods, the emphasis is on transfer programs, which is what Americans usually mean by the term income security policy. The indirect methods are numerous and too complex and diffuse to be examined within the scope of this paper.

The tax system's potential to affect income security objectives has grown with the size of the public sector, with annual tax revenues on the order of $1.5 trillion, or about 34 percent of GNP. The rates, structure, and other provisions of the tax code directly affect the amount and distribution of after-tax income available to individuals and families, and the specific provisions of the tax law create various incentives that, in turn, affect the level, composition, and distribution of various sources of income.

The subsidization of earnings and employment has been undertaken only sparingly since the Depression. Beginning in the 1970s, however, expanded use was made of tax credits, both for low-income

workers and their employers as well as of public service employment.[1] The total amounts of money involved in the tax credits have never been more than a few billion dollars annually. Public service employment, on the other hand, became a sizable program (peaking at nearly $7 billion in 1978), before its elimination in the early 1980s.

The major public transfer programs serving income security purposes and the corresponding federal expenditures for 1986 are shown in table 1. The cash programs are of two types: means-tested programs designed to put a floor under the income of recipients, thus alleviating or eliminating their income poverty; and programs that are not means tested--those that generally have eligibility criteria related to employment history and current labor force status and are intended to replace some of a disrupted flow of earnings for people at all income levels. The noncash, or in-kind, programs support three types of consumption--food, housing, and health care--and are predominantly means-tested. Many of these programs are administered at the state and local levels, and several involve partial state and local, as well as federal, financing. (See the notes to table 1.) However, the aggregate of state and locally financed expenditures for income security purposes is relatively quite small--less than 10 percent of corresponding federal expenditures--and mostly for the Medicaid and Aid to Families with Dependent Children (AFDC) programs for which the federal, state, and local governments share costs.[2]

Fueled by the fiscal abundance resulting from the strong economic growth of the 1960s and 1970s and the growing public support for governmental efforts to assist the disadvantaged (President Johnson's Great Society), these income transfer programs grew extremely rapidly. As a result, spending for social programs, largely income transfer programs, more than doubled as a percentage both of total federal outlays and of GNP. (See figure 1, in which the "social insurance and other" and "low-income assistance" categories correspond roughly to the income security programs that are means-tested and those that are not in table 1.) This growth came in three distinct forms. Of greatest importance was the creation of new programs--most notably Medicare, Medicaid, and Food Stamps--and legislated expansions of eligibility for old ones, such as AFDC, Supplemental Security Income (SSI), and housing assistance. Second, increases in the real value of the benefits received by typical recipients in most programs resulted from numerous explicit legislative decisions to raise benefit levels, as well as from automatic adjustments built into the basic structure of some programs--most notably Social Security,

TABLE 1 FEDERAL EXPENDITURES AND REDUCTIONS FROM PRE-REAGAN POLICY BASELINE FOR INCOME SECURITY PROGRAMS, FISCAL 1986

Program	Expenditures (billion dollars)	Increase or reduction from pre-Reagan baseline[a] (percentage)
Cash programs		
Means-tested		
Aid to Families with Dependent Children[b]	9.3	-14.3
Supplemental Security Income[c]	9.0	8.6
Not means-tested		
Social Security[c,d]	203.7	-4.6
Income security for veterans[c,e]	14.3	-1.4
Unemployment compensation[b]	19.5	-17.4
Public service employment[f]	0.0	-100.0[g]
Subtotal	255.8	-5.3
In-kind programs		
Means-tested		
Food Stamps[f]	11.9	-13.8
Medicaid[b]	22.4	-2.8
Child nutrition[f,h]	5.0	-17.5
Housing assistance[f]	10.3	-11.4
Not means-tested		
Medicare	75.9	-6.8
Subtotal	125.5	-7.6
Total (means-tested programs)	67.9	-7.3
Total (non means-tested programs)	307.7	-5.8
Grand total (programs)	375.6	-6.1
Memorandum item		
Grand total as		
Percentage of GNP	8.6	
Percentage of the federal budget	37.9	

(See notes, overleaf.)

where benefit levels for new retirees reflect rising real wage rates; and Medicare and Medicaid, where benefit levels reflect changing medical practices and costs. The third form of expenditure growth came from the faster rate of growth of recipient populations than of the general population. This occurred because demographic change, for example, the growth of single-parent families and population aging led to an increasing percentage of the population being comprised of categorically eligible groups (the aged and single-parent families), because a growing number of the aged had extensive years of Social Security-covered earnings, and because a much greater proportion of the eligible populations chose to participate in some programs (such as AFDC).

By the late 1970s several factors had coalesced to produce a substantial shift in the previous expansionary trend of public income security programs. Chief among these were the major slowdown in economic growth, the growing public acceptance of conservative critiques of the American welfare state, and the maturation of many of the key welfare-state programs. This maturation would have produced a natural slowing of the growth of federal spending for income security programs in any event, but the other two factors contributed

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Notes, table 1

Source: Baseline cuts from D. Lee Bawden and John L. Palmer, "Social Policy: Challenging the Welfare State," in John L. Palmer and Isabel V. Sawhill, eds., The Reagan Record: An Assessment of America's Changing Domestic Priorities (Cambridge, Mass: Ballinger, 1984) table 6.1, pp.185-86. The 1986 expenditures are from Office of Management and Budget, Historical Tables: Budget of the United States Government, Fiscal Year 1987, February 1986.

a. Percentage reductions are measured relative to what expenditures would have been in Fiscal 1985 under Fiscal 1981 policies. They overestimate the actual effects of program reductions in some cases, since they are based on projections of inflation made in 1982-83 that turned out to be too high.

b. State and local administration and cost sharing. Includes total expenditures for unemployment compensation and the federal share (about 55 percent of the total) for AFDC and Medicaid.

c. Full federal financing and administration, though several states supplement the federal SSI benefits with their own funds.

d. Includes railroad retirement.

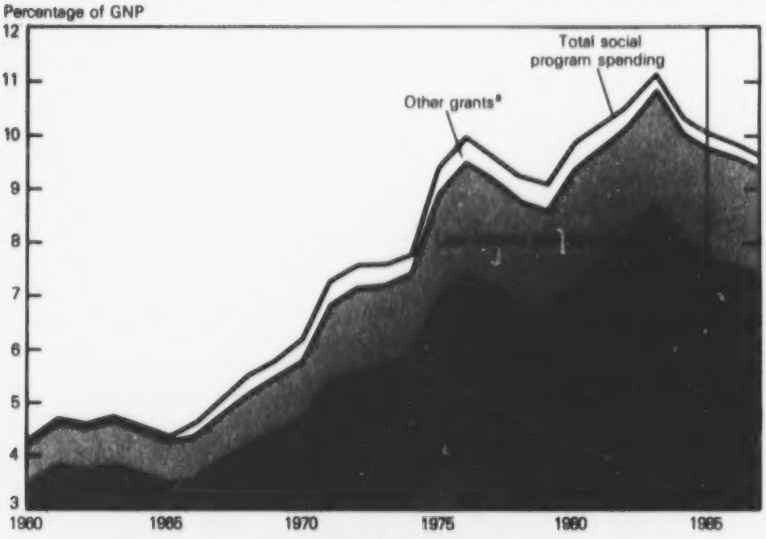
e. Includes veterans pensions and veterans compensation programs. A small portion of this is means-tested.

f. State and local administration, full federal financing.

g. Public service employment was funded at $3.1 billion in 1981 and then phased out in 1982 and 1983.

h. Includes the Special Milk Program for Children; the Special Supplemental Food Program for Women, Infants, and Children (the WIC Program).

FIGURE 1 FEDERAL SOCIAL PROGRAM SPENDING AS PERCENTAGE OF GNP



Source: Office of Management and Budget, Historical Tables: Budget of the United States Government, Fiscal Year 1986, unpublished tabulations; and author's calculations.

Note: Data for 1986 and 1987 are projections based on 1985 policies.

a. Includes Compensatory, Vocational, and Adult Education, Education for the Handicapped, Rehabilitation Services, Health and Social Services, Refugee and Entrant Assistance, and Employment and Training Programs.

b. Includes Medicaid, Aid to Families with Dependent Children (AFDC), Veterans' Pensions, Supplemental Security Income (SSI), Food Stamps, Student Financial Assistance, Housing Assistance, Child Nutrition, Special Supplemental Feeding Program for Women, Infants, and Children (WIC), and Low-Income Energy Assistance.

c. Includes Medicare, Social Security, Unemployment Insurance, Guaranteed Student Loans, Veterans' Compensation, Medical Care, and Readjustment Benefits.

strongly to a major change in the political climate. Because of the economy, Democratic President Jimmy Carter could find little room in the federal budget for new expenditures for social programs without raising taxes, and the public's fiscal generosity was waning under the pressures of stagnant disposable incomes and growing skepticism of

the efficacy of many social programs. To be sure some expansions of income security programs did occur. For example, temporary increases in unemployment insurance and public service employment were legislated in response to high unemployment rates at the beginning of President Carter's term, and the federal commitment to housing assistance was considerably expanded, although the latter involved raising the budget authority for future spending much more than it did raising current spending. But much more important was what did not happen. In particular, President Carter's proposals for national health insurance and welfare reform, which in the late 1960s and early 1970s had appeared to be the logical major next steps in the expansion of federal income security policies, were rejected by Congress. In consequence, the growth in federal spending for income security programs slowed markedly in the second half of the 1970s to little more than that of GNP.

The shift in income security policy was furthered with the election of Ronald Reagan as president. Social programs were targeted for sizable reductions by his administration, not only because budget planners had to make room in the budget for an accelerated defense buildup and large tax cut, but also because the previous growth of these programs was identified by President Reagan as a major contributor to America's economic woes through the undermining of incentives for self-reliance and material advancement. In his first term President Reagan proposed cuts in income security programs amounting to about 13 percent, relative to what such spending would have been under the policies he inherited. Congress, in fact, granted him reductions of somewhat less than half this amount. (See the second column in table 1.) The resulting cuts were proportionately greater in the means-tested programs, where they were largely designed to restrict benefits to the lowest income recipients. The reductions in programs that were not means-tested similarly trimmed benefits for many of the most well-off recipients, but also reduced coverage for many recipients who might be considered capable of working.[3] Although the cuts were not large enough in the aggregate to arrest the real growth of federal spending for income security purposes, it was further slowed. In consequence, outlays for the programs ceased to grow relative to GNP.[4] In response to concerns about the federal budget deficit, which has averaged about 5 percent of GNP since 1982, congressional action so far in the second term of the Reagan administration has consolidated this new trend.

THE CONSEQUENCES

The effect of the changing patterns of federal expenditures discussed above on the actual income security of individuals and families is the subject of heated debate. Here I survey the best available data on progress toward income security policy goals, indicating, where possible, the contributions of particular public policies.

Poverty

The simplest gauge for measuring progress toward alleviating poverty is the movement of the official poverty rate, the proportion of the total population living in households in which money income falls below a designated poverty threshold. The threshold varies with household size and is adjusted over time to inflation. The poverty threshold in 1986 was $5,701 for a single, nonaged individual and $11,203 for a family of four. The official overall poverty rate declined markedly from above 20 percent in the early 1960s, when it first became a focus of attention, to 11 percent in the early 1970s, with the gains widely shared among all demographic groups. The poverty rate for the nonaged then remained relatively stable through 1979 and rose rapidly thereafter to a peak of 15.3 percent in 1983, from which it has fallen only modestly in the subsequent three years to 13.7 percent in 1986. However, poverty among the aged declined steadily throughout the 1970s, and this trend has continued so far in the 1980s to a low of 12.4 percent in 1986. It is clear that changes in public transfers, in the economy, and in the demographic composition of the population all have played an important role in determining this pattern, although it is difficult to sort out their respective roles precisely.

The antipoverty effectiveness of the various public transfer programs is often understated. First, since only money income is considered in calculating the official poverty rate, in-kind programs do not affect it. If all in-kind benefits were counted as income at their cost to the government, the poverty rate by 1979 would have been less than 7 percent rather than the official rate of 11.7 percent.[5] Second, the poverty rate is strongly influenced by demographic change--in particular, by the increase in the proportion of the low-income population that has little potential for earnings or other sources of private income (table 2). Most notably, between 1960 and 1986 the proportion of the poverty population below age 65 living in households headed by women more than doubled, reflecting a similar increase in

TABLE 2 THE POVERTY POPULATION, SELECTED YEARS
(percentages)

Poverty measure	1960[a]	1970	1980	1986
Incidence of Poverty[b]				
All persons age 65 or over	35.2	24.5	15.7	12.4
Persons less than 65 in households headed by women	50.4	37.4	35.2	36.7
Persons less than 65 in households headed by men	17.8	7.5	7.9	8.3
All persons	22.2	12.6	13.0	13.6
Composition of the poverty population				
All persons age 65 or over	13.9	18.5	13.2	10.6
Persons less than 65 in households headed by women	21.2	34.0	42.2	45.7
Persons less than 65 in households headed by men	65.0	47.5	44.6	43.6
Total	100.0	100.0	100.0	100.0

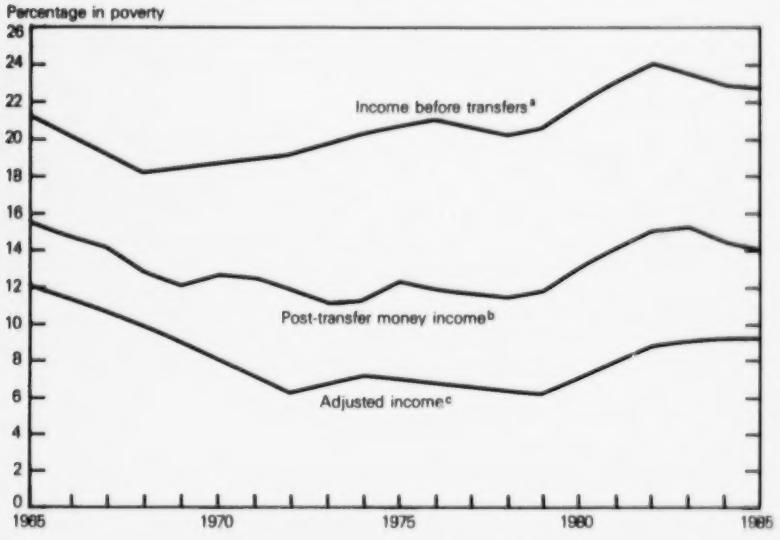
Source: U.S. Bureau of the Census, Money Income and Poverty Status of Families and Persons in the United States: 1986, Current Population Report, Series P-60, no. 157, table 16 and Advance data from the March 1987 Current Population Survey, Washington, D.C.

a. Based on 1960 household composition and 1959 income data.

b. Incidence refers to the proportion of the total population in each age-specific household category that is classified as poor.

the share of families headed by women among all families over the same period. The official poverty rate would have been an estimated two percentage points lower in 1979 were it not for these and other changes in the demographic composition of the population since the mid-1960s.[6]

FIGURE 2 TRENDS IN THE PERCENTAGE OF POOR AMONG ALL PERSONS



Source: "Poverty in the United States: Where Do We Stand Now? Focus (Winter 1984), a publication of the Institute for Research on Poverty, University of Wisconsin; unpublished data from Sheldon Danziger (Institute for Research on Poverty, University of Wisconsin); and author's estimates.

a. Income or market income before transfers. Excludes government transfers but includes private transfers such as gifts, alimony, child support, and private pensions.

b. Income after transfers, according to the Census. The official income definition includes market income and cash transfers, but does not subtract taxes.

c. Adjusted income. Includes in-kind benefits, subtracts direct taxes, and adjusts for underreporting of cash benefits.

The influence of these factors is illustrated in figure 2, which shows 1965-85 poverty rates based on three different measures--income before transfers, post-transfer money income, and adjusted income (which includes in-kind benefits received and nets out taxes paid). Comparison of these rates demonstrates that the sharp reductions in poverty in the 1960s were caused by the rising pretransfer income growth, resulting from the strong economy, and rapidly growing transfers. The same comparison of rates reveals that the relatively stable poverty rates of the 1970s resulted from the

offsetting of these still rising transfers by reductions in income before transfers, attributable primarily to poorer economic performance and demographic shifts.

The relative effectiveness of the various transfer programs in moving people out of poverty is illustrated in table 3, which shows the percentage of poor people who are moved out of poverty as a result of receiving public transfers. The social insurance cash and in-kind programs have had a major impact, while the effects of the means-tested cash programs have been much weaker because the latter involve far fewer dollars. The antipoverty effectiveness of the overall income transfer system grew rapidly until the mid-1970s, then changed little for the remainder of the decade, when expenditures were no longer expanding relative to the economy.

After two decades of rapid decline followed by comparative stability, all measures of the poverty rate rose sharply starting in 1980. (See figure 2.) By 1983 the official rate rose to a level not experienced since the mid-1960s. This dramatic shift resulted primarily from the mild recession and high inflation of 1980, followed by the deep recession of 1982. Two other factors also contributed substantially to this shift--the retrenchment in income security programs and a marked trend toward greater inequality in the earnings of nonaged families. Program retrenchment accounted for about one-quarter of this increase in the poverty rate; however, the precise impact of the trend of growing, pretransfer inequality is hard to disentangle from cyclical effects.[7] Thus far the policy changes and the growing pretransfer inequality have proven more permanent than the recession and are the major reasons why the poverty rate has declined only modestly since 1983, despite the strong recovery from the 1982 recession and subsequent economic growth. They have also contributed to a reduction in the antipoverty effectiveness of income security programs in the 1980s, as shown in table 3.

But just as the antipoverty effectiveness of the programs is often underestimated for reasons discussed above, it is overestimated by the measures reported in table 3, which assume that the pretransfer poverty rate would be the same regardless of the size of the public transfer system. The growth of the system itself may have caused some increase in pretransfer poverty by reducing incentives for work and savings and increasing incentives for family splitting. In fact, some critics of America's welfare state have gone so far as to argue that, due to these factors, the official poverty rate is actually higher than it would be in the absence of income security programs. While the evidence does not support such a strong conclusion, it does suggest that the measures in table 3 generally overstate the true anti-poverty effectiveness of income transfer programs, as well as indicate

TABLE 3 ANTIPOVERTY EFFECTIVENESS OF MAJOR INCOME TRANSFERS, SELECTED YEARS

Year	Percentage pretransfer poor removed from poverty				
	Cash social insurance transfers	Cash means-tested transfers	All cash transfers	In-kind transfers	All transfer
1965	23.5	3.3	26.8	16.4	43.2
1976	37.6	6.2	43.8	28.1	71.9
1978	37.6	5.9	43.5	n.a.	n.a.
1980	35.2	8.5	43.7	n.a.	n.a.
1982	33.8	3.8	37.6	25.8	63.3
1984	33.2	3.9	37.1	22.7	59.8
1985	33.5	4.0	37.5	n.a.	n.a.

Source: Tabulations from the relevant Current Population Survey data tapes prepared by Christine Ross and extended by George Slotsve, University of Wisconsin, Institute for Research on Poverty.
n.a. = not available

more growth in this effectiveness during their expansionary period and less decline during their recent contraction than actually occurred. There is considerable conclusive evidence showing modest negative labor supply effects;[8] however, the evidence on family splitting and savings is much more ambiguous.[9] In any event, the trends shown in table 3 would be the same.

Earnings Replacement

The earnings of individuals and families can be sharply curtailed by a number of events, chief among which are retirement, disability, unemployment, and death. Numerous public programs have been developed over the years in the United States to moderate the effects of these events on the incomes of individuals and families. These programs are not means-tested; entitlement to benefits depends principally on employment history, and thus people at all income levels can be eligible.

Social Security--Old Age, Survivors and Disability Insurance (OASDI)--and Unemployment Insurance (UI) are by far the largest public earnings replacement programs, but they are only part of a large matrix of both public and private sources of such income support, as shown in table 4. The federal role in this area is extremely complex because it involves not only the specific structure of federal programs but also the provision of incentives for and regulation of both state programs (such as workmen's compensation) and certain private activities (such as private pensions).

Because of the complexity of these activities, there is no simple way to measure progress toward fuller earnings replacement. We can, however, note that the increase in expenditures in this area before the late 1970s is indicative of rapidly expanding protection for workers and their families. For example, expenditures under the public programs shown in table 4 grew from 2.6 percent of GNP in 1950 to 7.8 percent in 1975; for the corresponding years, private employee benefits grew from 0.4 percent to 1.5 percent of GNP. Interestingly, payments under the public programs grew somewhat more slowly than private payments over the period, indicating an increasing relative role in earnings replacement for the private sector. The major component of this private sector earnings replacement is private pensions, where growth has been encouraged by favorable tax treatment. Virtually all employer and most employee contributions to private pension programs are deductible from current income for tax purposes, and any earned returns are also tax exempt. Only when pension income is finally received in retirement is it generally taxed. This tax deferment is the largest and fastest growing tax expenditure at the federal level, rising from a little over $5 billion in 1975 to about $49 billion in 1986.[10] Data on expenditures in more recent years for all the activities in table 4 are not available, but it is apparent that total spending is no longer growing relative to GNP.

RETIREMENT AND SOCIAL SECURITY The degree of protection against lost earnings provided by Unemployment Insurance and Social Security can be measured more precisely. Over the past forty years Social Security has increased its coverage of the private labor force from 65 percent to virtual saturation. Table 5 shows the amount of earnings replacement Social Security currently provides for various types of workers and their families. The replacement rate is the ratio of the initial year's benefits to the worker's gross earnings in the year before eligibility. It provides a useful measure of the extent to which Social Security benefits alone will permit a family to maintain the standard of living achieved before eligibility. The estimated rate necessary for full maintenance ranges from about 60 percent for high-wage workers to 80 percent for low-wage workers.

TABLE 4 MAJOR PROVISIONS FOR EARNINGS REPLACEMENT IN THE UNITED STATES, 1987

Reason for earnings loss	Earnings replacement source[a]	Jurisdiction
Temporary unemployment[b]	Unemployment Insurance	State, federal
Disability		
Resulting from work only, total and partial	Workmen's compensation	State
	Veterans compensation	Federal
	Black lung program	Federal
Other	Sick leave	Public and private employees
Short-term	Temporary disability insurance	State, private
Long-term	Social Security (disability insurance)	Federal
	Long-term disability insurance	Private
	Early retirement pensions	Most public and private pensions
Retirement and death		
Low-to-middle income classes	Social Security (Old Age, Survivors, and Disability Insurance)	Federal
Middle-to-upper income classes	Social Security (Old Age, Survivors, and Disability Insurance)	Federal
	Pensions	Most employers
	Annuities, life insurance, and other savings	Private

Source: Author's calculations.

a. In addition there are many favored tax treatments that support the earnings replacement function.

b. Public service employment was also a source of earnings replacement in the late 1960s and 1970s; it was virtually eliminated in the early 1980s.

TABLE 5 REPLACEMENT RATES UNDER OLD AGE AND SURVIVORS INSURANCE, BY AGE OF RETIREMENT, 1985

Retirement age and spouse's age	Replacement rate[a] for worker		
	Low Earnings[b]	Median Earnings[c]	Maximum Earnings[d]
Worker retiring at			
Age 65	0.638	0.409	0.228
Age 62	0.510	0.327	0.182
Worker retiring at age 65 with spouse			
Age 65	0.956	0.613	0.341
Age 62	0.877	0.562	0.313
Worker retiring at age 62 with spouse			
Age 65	0.830	0.532	0.296
Age 62	0.750	0.481	0.268
Surviving spouse age 65 with deceased spouse retiring in 1985 at			
Age 65	0.638	0.409	0.228
Age 62	0.526	0.337	0.188
Surviving spouse age 62 with deceased spouse retiring in 1985 at			
Age 65	0.529	0.339	0.189
Age 62	0.526	0.337	0.188
Surviving spouse age 60 with deceased spouse retiring in 1985 at			
Age 65	0.455	0.292	0.163

Source: Based on tabulations provided by the U.S. Department of Health, Education, and Welfare, Office of the Assistant Secretary for Planning and Evaluation, 1985.

a. The replacement rate is the constant dollar value of 1985 benefit divided by the constant dollar value of the 1984 wage.

b. Minimum wage pay over a continuous work history.

c. Median for all male wage and salary workers with earnings subject to the Social Security tax over a continuous work history.

d. Worker earning at or above the maximum wage subject to the Old Age, Survivors, and Disability Insurance payroll tax over a continuous work history.

Current Social Security replacement rates are considerably higher than rates before the 1970s, although they have declined substanially their peak in 1981. After fluctuating between 45 percent to 50 percent in the late 1950s and 1960s, the replacement rate for the median (married) worker steadily increased by 75 percent over the next 11 years and then lost over half this gain in the past five years. The increases in the first half of the 1970s were a result of conscious legislative decisions, but those in the latter half were the unintended result of a technical flaw in the formula that was initiated in 1975 for automatically adjusting the wage histories to inflation and, therefore, the benefits of new retirees. The combination of both this problem and the slowdown in economic growth forced Congress to pass major legislation in both 1977 and 1983 to improve the solvency of the Social Security trust funds through a combination of benefit reductions and tax increases. The recent decline in replacement rates is one consequence of these changes; the legislative intent was to stabilize them for the remainder of this century at their mid-1970 levels, which has now more or less been accomplished.

Examination of table 5 suggests that nearly adequate replacement rates have been achieved through Social Security alone for fully covered low-to-medium wage workers who do not retire early and their families. Although Social Security replacement rates fall far short of the levels required to maintain previous standards of living as workers' wage histories exceed the median, most of these workers have private pensions and other private resources that result in adequate total replacement rates. Over one-third of all aged individuals or couples receive a pension or annuity in addition to Social Security, and a majority has income from assets. Both of these sources of income are highly concentrated among the higher income aged.

At one time it appeared that employer-based pensions might continue to increase in importance relative to Social Security in providing earnings replacement, but recent events have cast some doubt upon this. The portion of the labor force that was covered by employer-based pensions grew rapidly in the post-World War II era from very little to a peak of 56 percent in 1979, but since then it has declined to 52 percent. Much of the decline undoubtedly was due to the recessions of 1980 and 1982, but the fact that the extended recovery has not reversed the decline raises questions about whether the 1979 high will again be achieved or surpassed.[11] The proportion of aged households actually receiving employer-based pensions has held steady at about one-third in recent years after climbing rapidly for several decades. The growing labor force participation of women and new federal requirements for vesting should eventually lead to a

substantial increase in these recipiency rates; however, the rates will ultimately be constrained by the pattern of coverage.

While this discussion of earnings replacement in retirement indicates considerable achievement of the desired goal despite recent declines in employer-based pension coverage and Social Security replacement rates, some caveats need to be kept in mind. There are still sizable numbers of aged whose standard of living falls considerably in retirement and who live near or below the poverty level. Older retirees, widows, and divorcees without a substantial earnings history and workers who were disabled are especially vulnerable. Furthermore, catastrophic medical expenses for acute or long-term care pose a serious and widespread threat to the income security of all but the most affluent aged, and the problems of financing long-term care, especially, are expected to be of increasing concern as the very old greatly expand their numbers.

UNEMPLOYMENT INSURANCE The Unemployment Insurance (UI) system has followed a similar course to OASDI over recent decades, expanding its earnings replacement capacity throughout most of the post-World War II era, and then retreating substantially in the 1980s from the previous peak. Coverage of the basic state program has expanded from encompassing less than 60 percent of all wage and salary earners in the early 1950s to nearly the entire labor force now. States gradually increased maximum benefit durations (the number of weeks of unemployment per year for which covered workers could claim benefits) until the current norm of 26 weeks became widespread in the 1960s. Statutory replacement rates were gradually increased, so that by 1980 the ratio of benefits paid to average covered weekly wages (in the base period for calculating the benefit) ranged between 50 percent and 60 percent across the majority of states, reflecting the intent to replace half of the lost income due to unemployment. However, more sophisticated measures of replacement rates, which adjust for such considerations as weekly benefit minimums and maximums, benefit exhaustion, taxes, work expenses, and fringe benefits, indicate that the actual replacement rates for typical workers in 1980 were more on the order of 40 percent.[12]

In addition to this 26-week basic state program, two tiers for extending the duration of benefits with federal financing were added during the 1970s in response to concern about widespread exhaustion of benefits.[13] The previous ad hoc practice of temporarily extending benefits an additional 13 weeks in recessions was made an automatic feature in 1970, with coverage triggered when unemployment rates exceeded predetermined thresholds; temporary, ad hoc extensions of an another additional 13 and 26 weeks of benefit eligibility were made during the 1972-73 and 1975-77 economic downturns, respectively.

By the end of the 1970s several states were experiencing financial difficulties in their UI programs because of the sluggish economy and had begun to restrict eligibility for benefits through various means. Steps taken at the federal level in 1981 then greatly increased this tendency toward retrenchment by: (1) imposing much greater costs on those states that were borrowing from the federal government to help finance their basic programs, thus encouraging further state tightening; (2) sharply restricting worker access to extended benefits under the 13-week state-federal program by tightening the unemployment "trigger" provisions; and (3) curtailing the availability of federally funded UI benefits to certain special groups.

In response to the subsequent deep recession, and against the wishes of the Reagan administration, Congress took a series of steps in 1982 and 1983 to ease the UI financial burden of borrowing on some states and to temporarily provide longer term UI benefits without altering the earlier changes in the trigger. The resulting UI system that is now in place, however, is still considerably less generous than that of the 1970s.

There is no simple way to measure the degree of reduction in earnings replacement by the UI system from its peak in the late 1970s; no comprehensive study of replacement rates has been undertaken since 1980, and many of the recent changes have served to restrict benefit eligibility rather than to reduce benefit levels per se. However, two more general indicators are available. First, estimates suggest that aggregate expenditures for basic state UI in 1982-84 were 30 percent to 40 percent less than they would have been under the previously prevailing policies and that the corresponding reduction for extended benefits was more than 50 percent. Second, insured unemployment (claimants for regular state UI benefits), which averaged about 50 percent of total unemployment in the three recessions between 1970 and 1981, did not even rise above 40 percent during the much deeper recession of 1982.[14] The recent reduction in earnings replacement provided by the UI system clearly has been quite large overall and particularly concentrated among the longer term unemployed.

Financial Access to Certain Goods and Services

The federal government has long promoted financial access to certain widely valued goods and services, but only in the past two decades has this policy been vigorously pursued. In fact, direct in-kind programs for food, low-income housing, and financing of medical care barely existed before the beginning of President Johnson's War on Poverty in the mid-1960s; since then these programs have been the fastest growing component of federal expenditures for social purposes.

FOOD Although there are no reliable time series measures of the degree of hunger and malnutrition among the population, it is clear that both declined steadily throughout the 1960s and 1970s as a result of economic growth and public programs. Hunger became a major national issue in the late 1960s and early 1970s, when a series of reports documented its continued pervasiveness, despite a decade of unprecedented economic prosperity that had resulted in major dietary improvements. These reports prompted action at the federal level, including a sizable expansion of specialized food and nutrition programs for pregnant women, infants, and schoolchildren and the emergence of a new national program (Food Stamps) to provide financial assistance to low-income families and individuals for routine purchases of food.

The Food Stamps program is by far the most important of federal programs for promoting a nutritionally adequate diet. Since 1974 all households in the United States have been eligible to receive food stamps, which can be redeemed for groceries at most stores if the income and assets of the household falls below prescribed levels. The value of the food stamps for which a family is eligible is determined, under nationally uniform criteria, by what the Department of Agriculture considers sufficient to purchase a minimally adequate diet. The actual amount varies with family size and is adjusted for changes in food prices over time. (In 1986 it amounted to about $3,200 a year for a family of four.) Initially most households had to pay between 20 percent to 30 percent of their monthly income (after some deductions for such items as work-related expenses) to receive food stamps adequate to purchase the government-determined minimally adequate diet. This purchase requirement was subsequently eliminated in order to remove a potential barrier to participation. As a result the value of the food stamps actually provided is now the difference between the previous level and 30 percent of income after deductions.

By the end of the 1970s participation in the food stamp program had grown to more than 20 million persons, about 60 percent of those estimated to be income-eligible, including two-thirds of the official poverty population and several million near-poor persons. Total spending on this and other food and nutrition programs totaled more than $10 billion annually, in contrast to less than $500 million annually in the early 1960s. Follow-up studies show that these programs, other public and private efforts, and strong income growth in the early 1970s had made a huge difference. Despite the slowdown in economic growth beginning in the mid-1970s, evidence of widespread hunger and malnutrition could not be found.[15]

Since the late 1970s, however, conditions appear to have deteriorated. While there is no precise measure of the degree of deterioration, more than a dozen reports have appeared during the past three years, which have documented sizable increases in hunger and malnutrition in the 1980s and concluded that America once again has a serious hunger problem, though not as serious as 20 years ago.[16] Some explanations for this increase in hunger emphasize worsened economic conditions, while others blame cutbacks in public assistance. Both factors have undoubtedly played a role, but the relative degree of their importance is a matter of dispute. The higher poverty rates since 1979 clearly attest to a growing financial squeeze on lower income families. Also, starting in 1979, several steps were taken to limit eligibility and benefits for food and nutrition programs, culminating in large reductions in 1981. These were aimed at the least poor recipients; however, many of those affected were near or below the poverty level, at least temporarily. In consequence, while 68 percent of the officially defined poor received food stamps in 1980, this number declined to only 59 percent of a much larger population in 1985.[17]

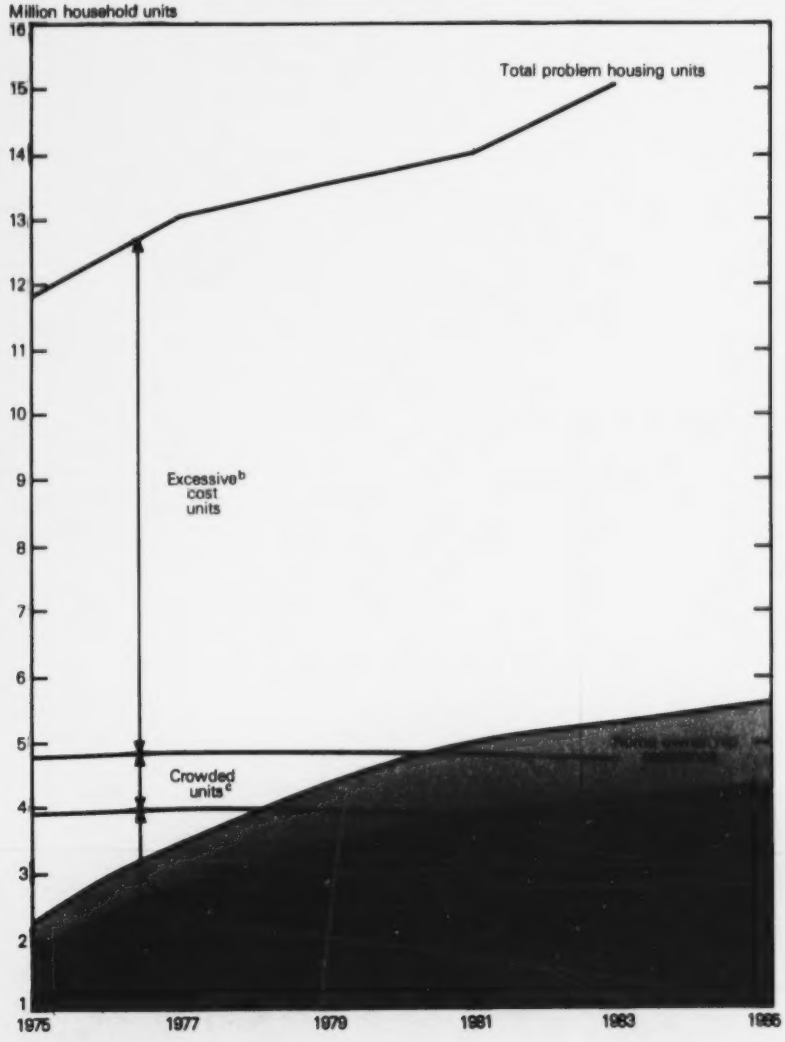
HOUSING The incidence of people living in physically substandard housing or overcrowded conditions has declined continuously and dramatically in the United States over the past four decades. By one criteria of physical adequacy, between 1940 and 1970 the estimate of all occupied housing units that were "lacking complete plumbing facilities and/or dilapidated" decreased from 48.6 percent to 7.4 percent. According to more recent surveys that entailed a broader and more stringent set of "adequacy" criteria, about 11 percent of all occupied units were physically inadequate in 1975 and less than 9 percent by 1983. In 1940 more than one in five households lived in units that provided less than one room per person. By 1970 the corresponding figure was less than one in 12, and overcrowding has continued to decline as a problem since then.[18]

Despite these remarkable gains in housing adequacy, serious problems remain for many low-income families and individuals and continue to grow worse in one important respect. Since the remaining physically inadequate housing is concentrated among low-income households, about one-fifth of the housing occupied by this population is still substandard or overcrowded. And a large and growing share of those who are able to live in physically adequate and uncrowded units (currently nearly half of the households in the bottom income quintile) do so only by spending more than 30 percent of their income on housing--a share that the federal Department of Housing and Urban Development (HUD) defines as "excessive."

The overall gains in housing adequacy over the past four decades were due largely to general income growth; however, federal policies have also contributed considerably through their role in the housing finance system, tax incentives for investment in housing, and the provision of direct housing assistance. Until recently all three federal policy approaches had been on an expansionary path for several decades; now, all have been or are being curtailed. Tax incentives and the housing finance system, which overwhelmingly benefit middle- and upper-income households, have been of far greater overall significance in terms of fiscal and social consequences than direct housing assistance, which is targeted on lower income households. For example, federal outlays on all housing assistance programs in 1985 totaled slightly less than $14 billion, whereas the estimated revenue loss from major housing-related tax expenditures was about $46 billion. The federal government has largely deregulated the housing finance system over the past decade and is in the process of reducing its role in housing loans and loan guarantees. Tax reform acts in 1981 and 1986 restricted the tax breaks for investment in housing in numerous ways. But it is the recent curtailment of direct housing assistance, especially for rental units, that is of greatest current concern, since serious housing problems are now essentially only a low-income phenomenon and concentrated particularly among the longer term, as opposed to the temporarily, poor.[19]

Grounds for this concern can be seen in figure 3. Before 1968, housing assistance to the lower income population was meager, but from then through the 1970s it expanded rapidly. Numerous programs were involved, but the important ones had two common characteristics: the subsidies were applied largely to units newly constructed to house low-income tenants, and they were designed to limit the housing costs of eligible families and individuals to 20 percent to 25 percent of income. Unlike most other income security programs, this housing assistance has never been an entitlement. Sufficient funds were never budgeted to cover more than a small fraction, about one-sixth, of the eligible population. However, by the late 1970s nearly 5 million urban and rural households were benefiting from such assistance programs, and an average of 400,000 to 500,000 new units were being added each year. In consequence, the portion of the eligible population being served was growing rapidly, and the growth in the number of low-income households with housing problems slowed markedly. However, several changes have occurred to housing assistance programs in the 1980s: the number of net new annual commitments has been sharply cut to about 150,000; new commitments have been more tightly targeted to the poorest of

FIGURE 3 NUMBERS OF "VERY LOW-INCOME" HOUSEHOLDS WITH HOUSING PROBLEMS AND OF TOTAL HOUSING ASSISTANCE COMMITMENTS OUTSTANDING, 1975-85



(See notes, overleaf.)

households; and they have been shifted almost exclusively to existing units (that is, little of the much more expensive new production is being subsidized).[20] Although the latter two steps have lowered the average cost per household assisted, the dramatic cutback in new commitments means that the growth in assisted units has barely kept pace with that of the eligible population and has fallen behind the growth rate of low-income households having to pay an excessive amount of their income for housing.

This discussion of housing so far has focused on occupied units. But not all Americans have a home. In the past few years there has been growing attention to the plight of the homeless. Various studies have estimated the size of this population to be from one-tenth of one percent to a full one percent of the total population--with the lower end of the range most likely correct (250,000 to 350,000 people)--but all agree that the number of homeless has grown rapidly over the past five years.[21] Until recently the homeless appeared to be largely transients, alcoholics, addicts, and mentally ill persons; however, now a significant and growing portion appear to be less deviant personalities, including families with children who simply cannot find affordable housing.

HEALTH CARE The best single measure of improvement in the population's financial access to health care is the extent of coverage of

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Notes, figure 3

Source: Iredia Irby, "Attaining the Housing Goal?" Housing and Demographic Analysis Division, Office of Economic Affairs, Federal Department of Housing and Urban Development, July 1986. Martin D. Levine, Statement before the House Subcommittee on Housing and Consumer Interests, Select Committee on Aging, 99th Cong., 1st sess., March 7, 1985.

a. Income at or below 50 percent of the median, as defined by the Department of Housing and Urban Development.

b. Units that cost more than 30 percent of monthly income if rented or 40 percent if owned. Does not include substandard or crowded units.

c. More than one person per room. Does not include physically substandard units.

d. This is the gross level of outstanding housing assistance commitments each year, not the net number of new commitments in the year. A small and declining portion of total assisted units are between 50 percent and 80 percent of median income level as new commitments are restricted to those under 50 percent.

health insurance, whether it be publicly or privately provided. There are numerous public programs for financing (or providing) medical services, but Medicare and Medicaid, which were initiated in the late 1960s, are by far the most important. The Medicare program now provides basic hospital insurance for all people who are disabled or are age 65 or over and covered by Social Security and offers a highly subsidized supplemental medical insurance plan covering physicians' services and certain other benefits. Under the Medicaid program, the states and the federal government share the costs of providing basic medical coverage to welfare recipients and, in many states, to the "medically indigent"--those categorically eligible for cash welfare, but with incomes somewhat too high to receive payments.

A large majority of the population not covered by these two programs has private health insurance, generally provided through employers. The federal government subsidizes the purchase of this private health insurance through the tax system, primarily by exempting employers' contributions from taxation. The value of this exemption is substantial and has been growing rapidly in recent years with the expansion of employer-provided insurance. In 1986 it was more than $23 billion, nearly the amount of federal expenditures under Medicaid. In contrast to Medicare and Medicaid, most of these subsidies do not go to aged or low-income people.

The rapid expansion of Medicare, Medicaid, and private insurance in the 1960s and 1970s resulted in a large decline in the share of the population that remained uncovered. By the mid-1970s virtually all the aged had one or more of these types of health insurance, and the portion of the nonaged who did not dropped from over 30 percent in the early 1960s to just under 14 percent by the mid-1970s.[22] Not only the coverage, but also the value of this health insurance increased enormously during this period as a wider range of services and increasingly sophisticated medical technologies were covered.

In contrast to the "minimal adequacy only" aims of federal policies governing housing assistance and food, federal health care policy has long reflected higher public expectations: in particular, that the federal government ensure financial access for all to mainstream health care. However, despite these expectations and the very substantial progress in the preceding decade, the country still fell far short of this goal in the late 1970s. The most glaring problems were (1) some 30 million of the nonaged, most of whom were in families with low incomes, unemployed heads of household, or both, were not covered by any health insurance plan;[23] (2) the general lack of

protection for catastrophic illnesses and for long-term care, except for the financially destitute under Medicaid; and (3) the financially burdensome out-of-pocket costs for even basic expenses under Medicare. Soaring public and private medical care costs in the 1970s received increasing political attention, and health cost containment superseded national health insurance as a public concern.

The subsequent cutbacks in Medicare and Medicaid have been somewhat successful in slowing the growth rate of public expenditures on health care (though not the rate of growth of overall real health care costs), but those declines in spending, in combination with events in the private sector, also have led to reduced financial access to medical services in the 1980s. For example, states have tightened Medicaid coverage of the nonaged, and a higher percentage of the labor force is either unemployed or in jobs that do not offer health insurance.[24] As a result, after holding steady at just under 14 percent from 1976-78, the proportion of the nonaged population without any health insurance has crept steadily upward every year since--to a current level of about 17 percent. Although Medicare and Medicaid continue to provide substantial protection to the aged, the share of their income the aged population has had to spend on medical care has also risen from about 11 percent to 14 percent over the past decade (and, as noted earlier, catastrophic expenses for both acute and long-term care are a growing concern).

Income Distribution

The degree of general money income inequality in the United States has followed a pattern somewhat similar to that of the poverty rate over the past 20 years. It decreased in the late 1960s (though far more modestly than the poverty rate), fluctuated in a narrow range through the first half of the 1970s and crept upward in the second half of the 1970s, then rose sharply in the early 1980s. This recent rise has resulted in an overall money income inequality in the mid-1980s that is significantly higher than 20 years ago and has not abated since the last recession.

The general trend in income inequality also masks a very different experience for the aged and the nonaged since the late 1960s, one that mirrors the poverty story. Although the income of a typical aged family is still below that of the nonaged, the gap has been considerably narrowed. The ratio of aged to nonaged median income rose from 0.53 to 0.71 between 1967 and 1983. Although the income

inequality within the aged population is still greater, it has declined dramatically over the past 20 years, while income inequality has increased to a nearly commensurate degree among the nonaged.[25] Table 6 documents the changes between 1967 and 1983 in the quintile shares of aggregate income and a conventional measures (the Gini coefficients) of the concentration of income for the total aged and nonaged populations. Since these measures do not typically vary much over time, the shifts shown in the measures of the aged and nonaged populations are large by historical standards.

What lies behind these remarkable shifts, and what role have income security policies played? Ignoring the possible effects of income security policies on the pretransfer distribution of income, which are far more complex and ambiguous than the effects on pretransfer poverty discussed above, we can answer these questions with a mix of facts and speculation.

The relative income gains over the entire period of the aged vis-a-vis the nonaged were clearly due to the strong growth in nonearnings income on which the aged primarily rely, in contrast to the weak growth of earnings, on which the nonaged primarily rely. Income security programs were critical to this growth in nonearnings income, since it was largely a result of the rapid expansion of Social Security. (High interest rates also played an important role, because the aged are the primary recipients of interest income.) The weak growth in earnings was due in part to the slow growth of the economy since 1973; however, the extremely large relative size of the baby-boom age cohorts, who have been entering the labor market since the mid-1960s, also appears to have constrained their earnings potential.[26]

The reasons for the changes in the income distribution within each group are easy to explain for the aged, but more elusive for the nonaged. The greatly reduced inequality among the aged is the result of the decline in the importance of earnings, which are extremely unequally distributed, and the increase in the importance of Social Security, which is far less unequally distributed. The growing inequality among the nonaged reflects a growing inequality of earnings that outweighed the offsetting influence of cash transfers during their expansionary phase and was then reinforced by the reduction of cash transfers in the 1980s. The puzzle, however, is exactly what accounts for this pattern in earnings. While it is impossible to quantify the relative contributions, some of it appears to be grounded in demographic change (for example, the rapid growth in the numbers of younger workers and female family heads whose earnings are

TABLE 6 RELATIVE INCOME SHARES AND INDEX OF INCOME CONCENTRATION FOR HOUSEHOLDS, BY AGE OF HEAD OF HOUSEHOLD, 1967 AND 1983[a]

Age of head of household	Year	Income quintiles (percentage) Lowest (1)	(2)	(3)	(4)	Highest (5)	Total	Index of income concentration[b] Level	Percentage change
All ages	1967	4.7	11.0	16.9	24.1	43.0	100.0	.382	
	1983	4.2	10.4	16.6	24.5	44.3	100.0	.398	4.2
Age 64 or under	1967	5.3	12.1	17.4	23.8	41.4	100.0	.355	
	1983	3.9	10.8	17.1	24.7	43.5	100.0	.392	10.4
Age 65 and over	1967	44.6	8.8	13.3	21.5	51.8	100.0	.458	
	1983	5.6	9.9	14.9	22.7	47.0	100.0	.406	-11.4

Source: Daniel Radnor, "Changes in the Money Income of the Aged and Nonaged," Studies in Income Distribution (Washington, D.C.: Social Security Administration, 1986).

a. The incomes underlying these data are adjusted for household size (using the poverty thresholds equivalence scale) and change in the age distribution of household heads between 1967 and 1983.

b. Gini coefficient.

relatively low), and some of it in the generally slack labor market, since lower wage workers tend to do relatively worse in periods of higher unemployment.[27] But these two factors do not seem sufficient; there is also some evidence of growing inequality in earnings that may be related to structural change in the American economy, such as the increased foreign competition for goods and services produced by low-wage workers and the related shift in employment from the manufacturing to the services sector.

This discussion on the distribution of income so far has been based on cash incomes before tax and after income transfers. How would the previous conclusions be modified by taking into account taxes and in-kind transfers? The short answer is "little." The distribution of the total tax burden is relatively equal and has not

changed much over time. Depending upon what assumptions are made about the incidence of property and corporate income taxes, the distributional effects of the tax system in 1980 ranged from very mildly regressive to mildly progressive--causing an adjustment in the index of income concentration of from only -0.9 percent to 2.5 percent, in contrast to the distributional effect of cash transfers, which probably had an equalizing effect on the order of 15 percent or more.[28] More important, what small shift there was in the distribution of the tax burden over the past 20 years reinforced the trends in the cash income distribution before taxes, as discussed above. The major change over the past twenty years has been decreased reliance upon the progressive property and corporate income taxes, which are more important for the aged, and increased reliance on the regressive payroll tax, which is more important for the nonaged. Also, the large 1981 income tax cut was regressive. Contrarily, the 1986 tax reform does largely relieve those below the poverty level from income taxation, but this just reinstates a condition that existed in the mid-1970s before inflation greatly eroded the real value of personal exemptions and the standard deduction.

The inclusion in income of some measure of in-kind benefits makes more of a difference than consideration of taxes but still does little to modify the earlier conclusions. By 1980 in-kind benefits had a significantly equalizing effect on the distribution of income--probably about half that of cash transfers--and one that had grown over time. Most of this effect, however, was on incomes of the aged; the aged receive the majority of all in-kind benefits, since that group receives most of Medicare, about half of Medicaid, and a sizable portion of housing assistance and food stamps expenditures. Thus, inclusion of in-kind benefits reinforced both the reduced inequality among households headed by aged persons and the gain in the income of the aged vis-a-vis the nonaged reflected in the income statistics. In contrast, the equalizing effects of the expansion of in-kind benefits for the nonaged in the late 1960s and 1970s were quite small, and these are the benefits that have been cut the most in the 1980s.

THE PROSPECTS

When one stands back from the specifics in each area of income security, a broad pattern is evident. Much progress was generally made with respect to all income security measures in the late 1960s and early 1970s, when there was both strong economic growth and highly expansionary public policies. This progress then slowed or stalled in the mid-to-late 1970s, as both economic growth and program spending slowed markedly. Finally, in the first half of the 1980s, with continued sluggish economic growth and contractionary policies, income security measures indicated deterioration on virtually all fronts. Only when the aged and nonaged are considered separately is there significant variation from this pattern. The trends in poverty and income distribution for the aged were highly favorable over the entire period, and income inequality (though not poverty) grew within the nonaged population throughout the 1970s, as well as in the early 1980s.

So much for the record. What are the prospects for the next decade, both for income security policies and for the achievement of income security goals? The latter, of course, are critically dependent not only upon the former, but also upon the future course of the economy. Given the very pragmatic orientation of Americans to these affairs, the future of income security policies will be determined as much by what we, as a society, believe we can afford to do as by what we might want to do.

On the one hand, if economic growth is as weak for the next decade as it has been so far in the 1980s (a little more than 2 percent annually on average), there are clearly hard times ahead for income security policies and goals. Such a rate of growth would not only be insufficient (in the absence of policy changes) to reverse the general deterioration in measures of income security in the first half of the 1980s, but undoubtedly would result in the continuation of this deterioration in most respects (earnings replacement rates in social insurance being the most notable exception, since they are fixed by law). Furthermore, severe fiscal austerity would continue to be the dominant theme for federal spending through the 1990s, since there would be little growth in per capita real incomes and the currently

large federal deficit (about 4 percent of GNP) would only decline appreciably with both major additional spending cuts and tax increases. Under these circumstances, further retrenchment in income security policies appears probable. Of course, a prolonged period of economic stagnation or recession could conceivably trigger a major expansion in the role of the state, as it did in the 1930s, but that is beyond the bounds of speculation here.

On the other hand, a return to the halcyon days of sustained strong economic growth that characterized the 1960s and early 1970s, when annual real GNP growth averaged nearly 4.5 percent, would undoubtedly by itself reverse many of the undesirable recent trends in income security measures. In addition, there would soon be ample room once again in the federal budget for considerable expansion of income security policies without increasing tax burdens. Such a prospect, however, currently appears well beyond the reach of the American economy. Most economists believe that the unprecedented accumulation of public and private (foreign and domestic) debt over the past six years poses continued problems for the economy in the immediate years ahead, and estimates of the growth rate of potential GNP tend to cluster under 3 percent per year.

The most likely outcome is that the economy will follow a modest growth path that is insufficient by itself to reverse the recent trends in income security measures. Under these circumstances, what can we expect to be the fate of income security policy? If history is any guide, we should not expect a return to highly expansionary policies, such as those of the 1960s, nor to further major contractions in the interest of promoting the "rugged individualism" of an even earlier era. Enduring characteristics of the American social and political landscape place real constraints on our ability to move very far in either direction. The past decade has amounted to a testing of these constraints, and the verdict appears conclusive: the United States cannot swallow the collectivist notions of the public good embodied in Western European welfare states, but neither is it prepared to sacrifice the guarantees of primarily middle-class economic security embodied in the New Deal and post-New Deal programs.

The former proposition--that the United States is not, and never was, headed ultimately toward a true welfare state--I have argued

extensively elsewhere.[29] Here let it suffice to note some of the abiding verities of American public life that preclude such a course: to wit, the widespread belief in the "American dream" of individual opportunity, rejection of class-based politics and collectively orchestrated schemes of redistribution, suspicion of government power, and identification of personal freedom with private enterprise.[30] These distinctively American characteristics have conditioned public support for income security policies for decades and, in consequence, the political foundation for those policies is largely pragmatic, not ideological. Policies have been developed ad hoc in response to particular social and economic problems, rather than in reflection of any widely shared vision of the just society. Even during the extremely liberal 1960s, successful politicians generally eschewed collectivist visions of the public good in favor of arguments that particular policies would help every individual and group to get ahead in a growing economy.

Thus, what is new about the Reagan era is not the president's credo; for that, he has merely tapped into a long-running current in the American public philosophy, and we should expect this current to continue to influence social policy in the United States after Reagan's departure. What has changed, however--and what makes any resumption of very expansionary social policies unlikely--is the terms of debate. What had been a matter of philosophical inclination has now acquired the luster of practical wisdom, so that future advocates of expansionary social welfare policies will face a much heavier and more pragmatic burden of proof.

There are two prominent reasons for this shift in terms of debate. First, although still subject to controversy, arguments and evidence that income security programs have undesirable incentive effects, which reduce their effectiveness and impose significant efficiency costs on the economy, have gained credibility over the past decade. Even many of those who believe that the benefits of the income security system now in place greatly exceed the costs acknowledge that continued expansions will yield substantially diminishing benefits relative to costs.[31] Second, the federal budget deficit will still be a strong fiscal constraint with only moderate economic growth. For example, even if there were to be no real growth in the defense

budget, achieving federal budgetary balance in the early 1990s (as Congress is committed to do) would still require a combination of domestic spending cuts and tax increases of several percentage points of GNP relative to current policies.[32]

There are analogous philosophical and economic reasons why history--especially quite recent history--also argues that there would not be a continuing retreat in income security policies under a regime of moderate economic growth. Simply put, Americans want the type of income security made possible by the public policies that they now have, and they believe they can afford it. These programs have been under an attack of growing intensity for more than a decade. Perhaps what is most remarkable is not that they were finally cut back in the 1980s after expanding for so long, but how little they were cut back, given President Reagan's immense popularity, the generally artful orchestration of his administration's pursuit of its domestic policy agenda, and the ensuing strong fiscal pressures for retrenchment. In fact, the basic structure of the income security system that President Reagan inherited is intact, with only some of the more dubious expansions of the past two decades trimmed away.

One can conclude from all this that the conservative challenge of the past decade has served to clarify and consolidate a consensus on the role of the federal government in income security. As a result, a broad-scale reversal of that role appears even less likely now than it might have before the advent of the Reagan administration. Nor will the budgetary pressure accompanying moderate economic growth be sufficient to force this reversal. Congressional behavior over the past two years strongly indicates that the burden of eliminating the remaining deficit will fall primarily on the defense buildup and other parts of the domestic budget--and eventually a tax increase--and not on income security programs.

Having made these general observations about the broad boundaries for income security policies in the near future in the United States, I want to sketch briefly the concrete implications for particular policies and policy proposals. As usual, it is easier to spot the negative implications--that is, to rule out certain possibilities--than it is to predict positive outcomes. Thus, for example, we can say with some confidence that a reemergence on the public agenda of

comprehensive national health insurance proposals is unlikely, as is the creation of entitlement programs for housing assistance, comparable to food stamps, or for long-term care, comparable to acute care under Medicare. Also improbable is the replacement of AFDC with a broader based income maintenance program (such as a negative or credit income tax or children's allowance) and anything approaching a situation with the government as employer-of-last-resort. These issues were all prominent on the liberal agenda at one point or another in 1960s and 1970s, and several were closely contested in Congress. Similarly, as far as contraction is concerned, we are unlikely to see the wholesale delegation of the AFDC program to the states, the imposition of mandatory "workfare" on all able-bodied welfare recipients, the total cessation of new federal commitments to housing assistance, or means testing of Social Security, Medicare, or both. These are all ideas that have been advanced in conservative quarters in recent years and, in some cases, have been recommended in budget proposals of the Reagan administration.

Much more plausible than either of these sets of extremes are selective adjustments to existing programs in response to increasing public concern about the deteriorating conditions identified herein. Some of these adjustments may entail the commitment of modest new public resources. However, given the fiscal stringencies, the changes clearly will also require a reorientation of priorities and a greater emphasis on the use of private resources, such as employer-based fringe benefits. In any event, the specifics of the changes will be far more reflective of traditional conservative concerns than were those of the 1960s and 1970s, and selective program contractions that do not appear to compromise vital income security goals will be necessary to help finance them.

The specific possibilities for new policy initiatives are obviously too numerous and complex to be examined in any detail here; the following list provides a representative sampling of proposals already in some form of circulation. It should be kept in mind that these initiatives raise many thorny issues regarding the public versus the private responsibility, federal versus state and local roles, and the use of direct expenditures versus tax incentives and regulation.

o Greater emphasis on work/training/retraining activities rather than income maintenance for the longer term unemployed and for many adult welfare recipients.

o Greater emphasis on family rather than immediate public responsibility for potential welfare recipients, such as strengthening legal obligations and enforcement for support of children by parents and grandparents (where the parents are minors).[33]

o Alterations in Medicaid, AFDC, or SSI to provide a more nationally uniform and adequate floor of income and health care financing protection to poor children and the aged.

o Greater emphasis on assisting the working poor and near poor through the tax system and other mechanisms besides "welfare" programs.

o Federally mandated provision of health insurance that meets specific standards of adequacy by all but very small private employers.[34]

o Modest expansion of new commitments to federal housing assistance, which would continue the new emphasis on vouchers for existing units as opposed to new construction.[35]

o Insured availability of catastrophic health insurance for acute care, and possibly some limited long-term care insurance, for the broad middle class.[36]

Because many programs have already been pared to the publicly acceptable limits, there are far fewer candidates for contraction than for new initiatives in income security policies. Nevertheless, general budgetary pressures and the desire to free resources for limited expansions may result in some continued cutbacks. The prime candidates here are reductions in public subsidies of pensions and health insurance for workers and retirees who are better off--for example, greater targeting--and reductions in provider (hospitals and doctors) reimbursement in health care. Some major steps have been taken in this direction in the past three years, in response not only to general budgetary pressures but also to the perceived improvement in the economic status of the aged, the continued escalation of health care costs, and the increasingly widely voiced concern about the impending

fiscal burden of population aging. More tightening could be in the cards, however, for both public programs (such as Medicare, veterans' programs, and possibly Social Security) and tax expenditures (such as employer contributions to health insurance).[37]

CONCLUSION

Assuming my scenario for the next decade is more or less borne out, what does it imply for income security in the United States as the twentieth century draws to a close? In brief, despite the progress in the 1960s and 1970s, we are still faced with major problems, and little consensus about how to deal with them. Chief among the problems are likely to be continuing high levels of poverty and welfare dependency, particularly among the nonaged; gaps in basic health insurance coverage and lower quality of care for those covered by public programs; growing unaffordability of low-income housing; and escalating concerns about the financial burdens of long-term health care. Looming behind many of these problems is the potential continuation of the recent trends in the deterioration of the earnings and income of lower income families with children due to structural changes in the economy. We can hope that a resurgence of economic growth akin to that of the 1960s eventually will bring marked improvement in the underlying conditions, as well as facilitate more of a political consensus on desirable new directions for public policies. But this is a hope, not a certainty. In the interim we are likely to find ourselves in the painful process of accumulating problems faster than solutions.

NOTES

1. The earned income tax credit offsets a large large portion of the payroll tax burdens for low-income families. Tax credits have been extended to employers for hiring certain classes of disadvantaged workers.
2. The major sources of state and locally financed expenditures for income security programs are AFDC and Medicaid, for which the federal government pays about 55 percent of the total. The only other significant programs are for general assistance, which are wholly state and locally financed and administered and for which expenditures have averaged about $5 billion annually so far in the 1980s.
3. For a detailed discussion of the nature of consequences of these cuts, see D. Lee Bawden and John L. Palmer, "Social Policy: Challenging the Welfare State," in The Reagan Record: An Assessment of America's Changing Domestic Priorities, edited by John L. Palmer and Isabel V. Sawhill. (Cambridge, Mass.: Ballinger, 1984).
4. It is difficult to discern in figure 1 the trends discussed in the text for the late 1970s and early 1980s because these trends are obscured by the periods of recession or very slow economic growth in 1974-75, 1980, and 1982. These trends temporarily inflated income security program spending relative to GNP since GNP drops below its trend growth rate and income security outlays rise in response to higher unemployment and lower incomes. However, the trends are clearly evident when average real rates of growth are computed over the relevant multiyear periods.
5. Some argue that in-kind benefits should not be counted because the poverty threshold was originally established on the basis of cash income only; if in-kind income had been considered, the threshold would have been set higher. There are also difficulties in measuring the value of in-kind benefits, since they are often of less value to the recipient than their cost to the government. For a discussion of these issues and estimates of alternative methods of evaluating in-kind benefits, see Timothy M. Smeeding, Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring their Effects on Poverty, U.S. Bureau of the Census, Technical Paper 50 (Washington, D.C., 1982).
6. Peter Gottschalk and Sheldon Danziger, "Macroeconomic Conditions, Income Transfers, and the Trend in Poverty," in The Social Contract Revisited: Aims and Outcomes of President Reagan's Social Welfare Policy, edited by D. Lee Bawden. (Washington, D.C.: The Urban Institute Press, 1984).
7. For attempts to sort out the relative contribution of the increase in the poverty rate in the 1980s due to policy changes, the business cycle, and longer term economic and demographic trends, see Gottschalk and Danziger, "Macroeconomic Conditions"; Sheldon Danziger, et al., "The Effects of Unemployment and Policy Changes on America's Poor," Journal of Social Policy 14, pt. 3, (July 1985), pp. 313-31; and Peter Gottschalk and Sheldon Danziger, "A Framework for Evaluating the Effects of Economic Growth and Transfers on Poverty," The American Economic Review 7(1) (March 1985), pp.153-61. For evidence that discretionary as well as legislated policy changes may have contributed to the slowdown in program spending, see Paul R. Culligan and Patricia Ruggles, "Is the Sensitivity of Federal Transfer Programs to Changing Economic Conditions Declining?" Working paper (Washington, D.C.: The Urban Institute, 1986).
8. See Robert Plotnick, "The Redistributive Impact of Cash Transfers," Public Finance Quarterly 12(1) (January 1984), pp. 27-50; and Sheldon Danziger et al., "How Income Transfer Programs Affect Work, Saving, and the Income Distribution: A Critical Review," The Journal of Economic Literature XIX (September 1981), pp. 975-1028.

9. The authors of the most comprehensive and thorough empirical analysis to date on the effects of AFDC on family structure and living arrangements conclude that AFDC has significantly affected living arrangements (that is, single mothers are much more likely to live in independent households because of receipt of AFDC); AFDC benefit levels influenced divorce and separation patterns among mothers under age 24, but not among older mothers; and that there is no evidence that AFDC benefits influenced child-bearing patterns. The overall conclusion of these authors is "welfare does influence behavior, but benefits are small relative to the significance of the events in most cases, and the impact is correspondingly small." See Mary Jo Bane and David Ellwood, "The Impact of AFDC on Family Structure and Living Arrangements," in Research in Labor Economics 7, edited by Ronald G. Ehrenberg. (Greenville, Connecticut: JAI Press, 1985), pp. 137-208.

10. Before 1987 the limits on tax deductibility of employer and employee contributions to pension plans were extremely generous and all workers were also eligible to deduct up to $2,000 for Individual Retirement Annuities (IRAs). The 1986 Tax Reform Act tightened both limits on deductible amounts for higher income earners and the penalties on early distributions. However, the new limits will affect only a small number of earners and an even smaller share of previously deductible total contributions.

11. Emily S. Andrews, The Changing Profile of Pensions in America (Washington, D.C.: Employee Benefits Research Institute, 1985).

12. The mean replacement rate, which takes account of only unemployed weeks in which benefits were received, was 45.7 percent. When uncompensated weeks of unemployment (due to the time lag between application and receipt of benefits or benefit exhaustion) are also taken into account, the mean rate drops to 39.1 percent. See Wayne Vroman, "State Replacement Rates in 1980," Unemployment Compensation: Studies and Research Vol. 1 (Washington, D.C.: National Commission on Unemployment Compensation, July 1980).

13. Unemployment Insurance is financed primarily through an employer payroll tax, but with complex arrangements between the federal and state governments. These arrangements set the wage base and tax rates (which differ for the basic and extended benefits program) and determine how they share program costs.

14. Wayne Vroman, "The Aggregate Performance of Unemployment Insurance" (Washington, D.C.: The Urban Institute Press, December 1985); and Culligan and Ruggles, "Is the Sensitivity of Federal Transfer Programs Declining?"

15. This was the finding of the Physician Task Force on Hunger in America, which carried out extensive field surveys in the late 1960s and 1970s, and again in 1984. See Physician Task Force on Hunger in America, Hunger in America: The Growing Epidemic (Cambridge, Mass.: Harvard University School of Public Health, 1985).

16. Ibid. Although these reports vary considerably in their degree of rigor and objectivity, the better ones leave little doubt that the problem grew worse in the early 1980s. Even "Report of the President's Task Force and Food Assistance" (January 1984) reached this conclusion.

17. The Effects of Legislative Changes in 1981 and 1982 on the Food Stamp Program, vol. I (Washington, D.C.: The Urban Institute Press, 1985). This report also concludes, however, that the reductions in benefits directly resulting from the 1981 legislation were fairly small. Other poorly understood factors such as general tightening of program administration within discretionary limits on the part of states, appear to be at least as important.

18. Congressional Budget Office, "Federal Housing Policy: Current Programs and Recurrent Issues," background paper (Washington, D.C.: Congressional Budget Office, June 1978); and Iredia Irby, "Attaining the Housing Goal?" (Washington, D.C.: Department of Housing and Urban Development, Office of Economic Affairs, July 1986).

19. Sandra Newman and Ray Struyk, "Housing and Poverty," Review of Economics and Statistics 65:2 (May 1983). pp. 243-53.
20. The eligibility standard for rental assistance was lowered from 80 percent of median income ("low income" in the Department of Housing and Urban Development terminology) to 50 percent ("very low income"), with the subsidy only paying housing costs in excess of 30 percent of income. (Home ownership assistance standards are somewhat higher.) This shrinkage in the definition of the eligible population increased the proportion being served from about 15 percent to 25 percent.
21. U.S. General Accounting Office, "Homelessness: A Complex Problem and the Federal Response" (Washington, D.C.: U.S. General Accounting Office, 1985).
22. These and subsequent data on the percentage of the nonaged population not covered by health insurance are from various papers by Katherine Swartz of The Urban Institute, Washington, D.C. Chief among these were Katherine Swartz, "How Different Are Four Surveys' Estimates of the Number of Americans without Health Insurance?" Journal of Economic and Social Measurement 14:3 (October 1986). pp. 233-242; and Katherine Swartz (with Margaret B. Sulvetta), The Uninsured and Uncompensated Care, a Chartbook, (Washington, D.C.: National Health Policy Forum, June 1986).
23. Although a number of the uninsured still receive health care by paying for it themselves or receiving charity from private and public hospitals and clinics, the lack of coverage often means that people neglect desirable care and rely more heavily on hospital emergency rooms. The growing problem of uncompensated care is creating problems for providers.
24. For analyses of recent state changes in Medicare, see John Holahan and Joel Cohen, Medicaid: The Trade-off between Cost Containment and Access to Care (Washington, D.C.: The Urban Institute Press, 1987).
25. The data on which the characterization of the change in the distribution of income is based are conventional calculations of Gini coefficients using unadjusted money income. The characterization of the aged and nonaged money income distributions are based on the data reported in table 6. These latter data make use of money income scaled by family size (using the equivalence scales implicit in the official poverty definition) and adjust for the change in the age distribution between 1967 and 1983.
26. Frank S. Levy and Richard C. Michel, "An Economic Bust for the Baby Boom," Challenge 29:1 (March-April 1986), pp. 33-39.
27. See Gottschalk and Danziger, "Macroeconomic Conditions."
28. Joseph A. Pechman, Who Paid the Taxes, 1965-85? (Washington, D.C.: Brookings Institution, 1985).
29. John L. Palmer, "Philosophy, Policy, and Politics: Integrating Themes," in Perspectives on the Reagan Years, edited by John L. Palmer, (Washington, D.C.: The Urban Institute Press, 1986).
30. See Hugh Heclo, "Reaganism and the Search for a Public Philosophy," in Perspectives on the Reagan Years.
31. For example, Danziger et al., "The Effects of Unemployment and Policy Changes on America's Poor."
32. John L. Palmer, "The Changing Structure of the Deficit," The National Tax Journal 39:3 (September 1987), pp. 285-97.
33. Several bills have recently been debated in congress, and many states are taking independent actions that are consistent with these two thrusts.
34. Senator Edward Kennedy has recently introduced a bill to accomplish this that is currently receiving serious congressional attention.
35. The shortage of housing for low-income families is stimulating nationwide initiatives to attract such untapped private resources as corporations, foundations, local institutions

like universities and hospitals, as well as wealthy individuals; and Senator Alan Cranston has initiated a major study intended to develop legislation to address this problem as well as the growing unaffordability of home ownership among the lower middle-class population.

36. The Reagan administration introduced a bill in early 1987 to expand Medicare to cover catastrophic acute care costs. A version of this bill became law just as their article went to press.

37. See John L. Palmer and Stephanie G. Gould, "The Economic Consequences of Population Aging," Daedalus 115(1) (Winter 1986). Recent steps that have been taken include tightening hospital reimbursement under Medicare, subjecting a portion of Social Security benefits to income taxation, and limiting tax subsidies for retirement savings.

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